House Energy & Technology Committee November 7, 2007 Testimony of Tony Anderson, General Manager Cherryland Electric Cooperative

Mister Chairman, members of the committee, I want to thank you for the opportunity to testify before you today regarding the regulation of electric cooperatives. My name is Tony Anderson and I am the General Manager of Cherryland Electric Cooperative. Previous to coming to Michigan in 2003, I managed a cooperative in Wisconsin for 5 years and another in Wyoming for 6.5 years. Wyoming was state regulated and Wisconsin was not, so I have been in, out and back in state regulation over the last 16 years.

Headquartered in Grawn, just south of Traverse City, Cherryland serves over 33,500 member consumers in Leelanau, Benzie, Manistee, Kalkaska, Wexford and Grand Traverse Counties. Cherryland's area is among the fastest growing cooperative service areas in the state.

I am testifying today in support of the Cooperative Member Regulation Act, House Bill 5383, and would urge your support. As the General Manager of Cherryland, I am responsible for the day-to-day operations of the cooperative and report to the cooperative's member elected board of directors. As a member-owned cooperative we have every incentive to act in the best interest of the members. We strive to establish fair rates based on the cost of providing service and balance that with our objective of maintaining reliable electric service. Since we are a not-for-profit company and operate on a cooperative basis, any margins earned are allocated back to the members based on their usage and ultimately returned to the customer/member as capital credits.

Cooperatives in Michigan, unlike most states, are fully regulated by the Public Service

Commission. Before Cherryland can adjust a rate or implement a rule change, we have to

file an application with the Michigan Public Service Commission seeking their approval. In

recent years, those applications have been acted upon in a timely manner. But that has not

always been the case. Cherryland has had some applications to adjust our power supply cost

recovery rate take over a year to process. The delay in processing the case and the extended

involvement of legal counsel and rate consultants to prosecute the application adds to the cost

of regulation. And time involved in regulation leads to a declining financial position.

As explained earlier by Mike Peters, most states do not regulate cooperatives, instead leaving decisions about rates, services rules, and the general operation of the cooperative up to those that are closest to the members—the board of directors. For example, when we needed to raise our rates in Wisconsin, we simply did the appropriate rate work either in-house or through a consultant and then made the decision after discussion with the board. This saved us literally months of time and our financial condition did not suffer. Filing and waiting for your case to be decided on in Michigan can take 6 months to a year. In that time, revenue losses pile up and equity slips away, forcing a cooperative into a continual game of catching up. Being unregulated, a cooperative can eliminate legal fees, reduce consultant fees significantly and pass the savings on to the membership quickly. Also, if we did end up charging too much, the extra revenue was simply allocated to the members in our service area rather than shared in a dividend to out-of-state stockholders.

Municipal electric systems, the other public power systems, are not regulated in Michigan and cooperatives should share that freedom. And, because all electric co-op boards are elected from the membership and by the membership, co-ops have even stronger member governance. Also, as Michigan's economy tries to begin its recovery, I feel the time of the MPSC staff would be better spent regulating larger for-profit utilities controlled by out of state shareholders. Let's simply leave the member-owned Michigan utilities in the hands of the Michigan people they serve. This is 'local control' at its best. Our business model protects our members.

The Cooperative Member Regulation, if passed today and signed into law, would not automatically change the way we as cooperatives do business. Before a cooperative acted to become member regulated, it would have to take up the issue and notify its members. Only then could the member-elected board make a decision to become member-regulated or to remain under the MPSC. One thing I can tell you is that if a cooperative does act to become member regulated, we will continue to focus on the members. We will continue to work to hold costs down and maintain reliable service. However, as a member-regulated cooperative we will be able to respond to economic changes more efficiently and that saves our members money.

I would ask that you support the Cooperative Member Regulation Act and I thank you for giving me this chance to testify today. I would be happy to answer any questions you may have.

Tony Anderson